TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1792 - SB 1783

February 29, 2016

SUMMARY OF BILL: Enacts the Historic Rehabilitation Tax Credit Act. Authorizes a franchise and excise (F&E) tax credit equal to 25 percent of the qualified rehabilitation expenditures for the rehabilitation of a certified historic structure, provided that: the structure is located within a redevelopment zone; the rehabilitation meets standards consistent with the standards of the Secretary of the United States Department of the Interior for Rehabilitation; the qualified rehabilitation expenditures exceed $5,000; and the Commissioner of the Department of Revenue, with approval by the Commissioner of the Department of Economic and Community Development, determines that the tax credit is in the best interest of the state.

Requires the entire tax credit to be earned in the year in which the certified historic structure, or portion of the structure, attributable to the qualified rehabilitation expenditures is placed in service, provided that the credit shall be claimed in three equal installments beginning with such initial year. Authorizes the tax credit to be allocated among some or all of the partners, members, shareholders, or other owners of any partnership, limited liability company, S-corporation, or other similar pass-through entity.

Authorizes the Tennessee Historic Commission to promulgate rules to effectuate the purposes of this Act and to adopt a fee, not to exceed $5,000, for the required applications and certifications.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – $370,800/FY17-18
$370,800/FY18-19
$370,800/FY19-20

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this bill, additional commercial activity at the restored historical property, and increased property values at and around the restored property. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Based on the Department of Revenue's analysis, it is determined that there is currently only one rehabilitation project that fits the criteria for the F&E tax credit established by the proposed legislation. The fiscal analysis is based on the assumption that only one such project will qualify for the proposed F&E tax credit.
- The expenditures for this project are estimated to be $5,000,000. Of this, $4,450,000 is assumed to be qualified rehabilitation expenditures.
- The total amount of F&E tax credits that will be granted to the owner of the qualified project is estimated to be $1,112,500 ($4,450,000 x 25%).
- Such tax credits will be claimed in three equal annual installments of $370,833 ($1,112,500 / 3).
- Since the tax credit is authorized to be allocated among some or all of the partners, members, shareholders, or other owners of any partnership, limited liability company, S-corporation, or other similar pass-through entity, it is assumed that the full amount of the $370,833 tax credit will be claimed each year.
- Due to the requirement that the entire tax credit be earned in the year in which the certified historic structure, or portion of the structure, attributable to the qualified rehabilitation expenditures is placed in service, it is estimated that the first year of impact will be FY17-18.
- Any impact to the Tennessee Historic Commission to promulgate the rules will be not significant. The Commission will not impose any additional application or certification fees.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

/bos